Why property price growth always leads a crisis recovery

By Propertyology Head of Research and REIA Hall of Famer, Simon Pressley

Just as it did with past crisis, the adverse economic impact from this coronavirus health crisis will begin its rebound with a real estate surge before anything else. Safe as houses!

Residential real estate is the one thing which is common to 25.5 million Australians. After all, shelter is an essential commodity.

While we all take one for the team to contain this god-awful nuisance of a germ, it is shelter that we are bunkering down in.

It's incredibly frustrating to not be able to have a barbeque with family or friends. Weeks on end without being able to go to the gym. No dining at cafes or restaurants or to have a pot at the pub. It's not even safe for sporting events to go ahead.

Let's face it, we are all going a bit bat-shit crazy at the moment!

But housing is safe.

The 200,000 real estate professionals across Australia are doing a stellar job providing the essential service of buying, selling and renting shelter. With a few logistical tweaks, it's business as usual for the shelter industry.

Understandably, curtailed human mobility will mean significantly less real estate activity. In fact, I fully expect these coming months will smash all-time record low transaction volumes.

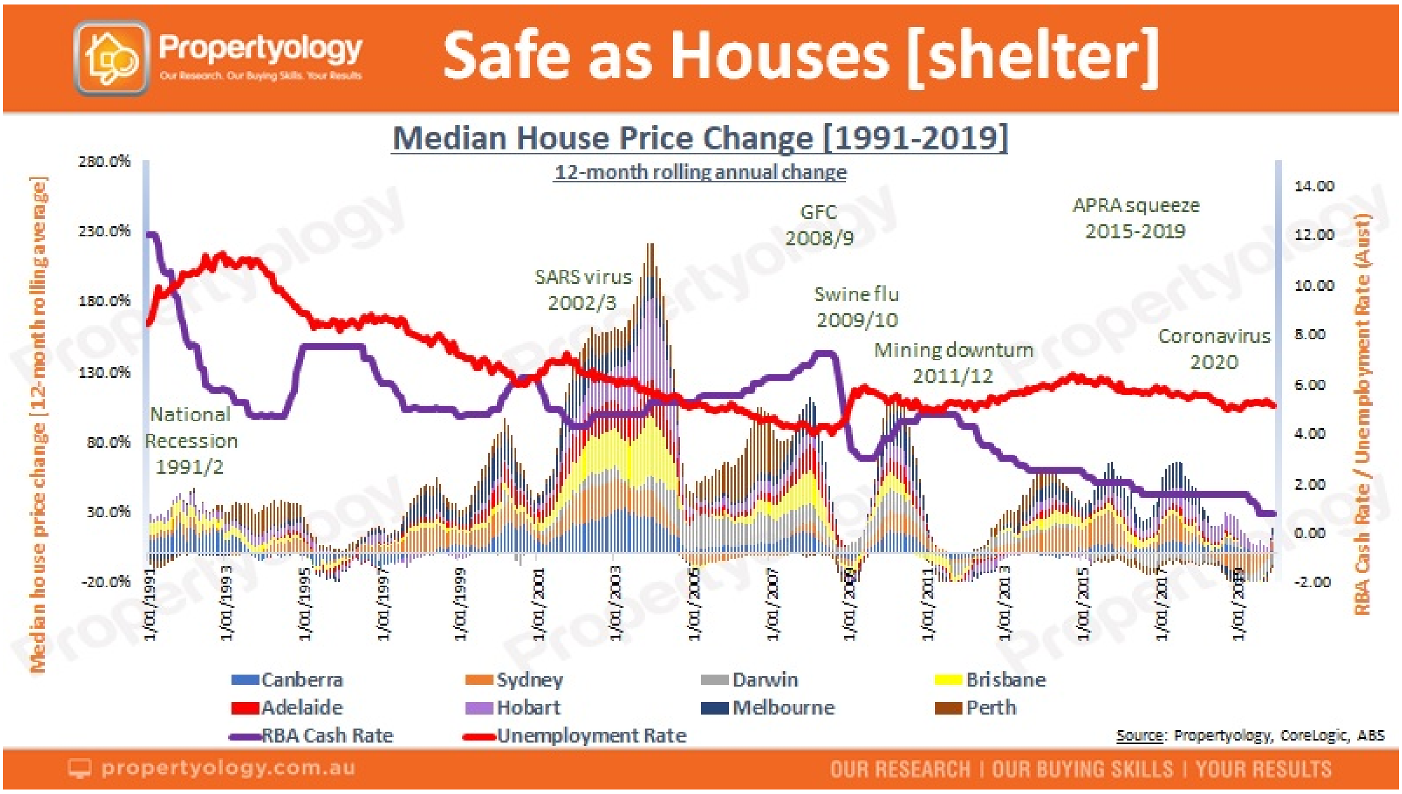
But fewer buyers will be neutralised by fewer sellers. Let's not forget that Australian real estate already had a significant shortage of properties listed for sale before this dreaded Covid germ tipped our communities upside down.

Indeed, for those with income security, it's an incredibly exciting time to transact in real estate now. From first home buyers, to upgraders, downsizers and property investors, those who do will be the biggest beneficiaries in a couple of years from now. Safe as houses!

For the moment though, real estate prices are largely on hold while everyone is (temporarily) confined to cocoons.

It's a bit like what our Prime Minister said about the national economy: '*… the pause button has been pressed for a period of time…*'

Of course, that's not how Negative Neville or Whinging Wendy will see it. As they suck on another lemon, they'll spend the next year or more talking about recession, high unemployment rates, government debt and property market crashes. You see, to these folk, a crisis is a doomsayer premiership.



Twenty-nine years ago, real estate led the rebound out of Australia's last recession. The unemployment rate hovered around 10 per cent during the 1991 recession year and the subsequent 2-years.

Over those 3-years ending 1993, 8 out of 8 capital cities produced property price growth (yes, growth) of between 2 percent (Melbourne) and 27 percent (Perth). Regional property markets were as strong, if not stronger, including Townsville (37 percent), Toowoomba (33 percent) and Wagga Wagga (22 percent).

It was a similar story 12-years ago with the global financial crisis – the biggest economic downturn in history.

Property prices again increased in 8 out of 8 capital cities over the 3-years ending 2010. Darwin (32 percent) and Melbourne (21 percent) were the best-performed capitals while Ballarat (19 percent), Bendigo and Launceston (both 18 percent) and Armidale (17 percent) were among many strong regional property markets.

	1991-93 (recession)	2008-10 (GFC)	2020-22 (Covid 19)
RBA Cash Rate	10% - 6%	7% - 4%	0.5% - xx
Unemployment Rate	9.5% - 11%	4.3% - 5.2%	5.2% - xx
Price Growth – Adelaide SA	Na	12%	Tba
Price Growth – Brisbane QLD	17%	1%	Tba
Price Growth – Canberra ACT	26%	15%	Tba
Price Growth – Darwin NT	Na	32%	Tba
Price Growth – Hobart TAS	20%	9%	Tba
Price Growth – Melbourne VIC	2%	21%	Tba
Price Growth – Perth WA	27%	2%	Tba
Price Growth – Sydney NSW	10%	16%	Tba
Price Growth – Armidale NSW	11%	17%	Tba
Price Growth – Wagga Wagga NSW	22%	15%	Tba
Price Growth – Toowoomba QLD	33%	19%	Tba
Price Growth – Townsville QLD	37%	6%	Tba
Price Growth – Launceston TAS	14%	18%	Tba
Price Growth – Ballarat VIC	3%	19%	Tba
Price Growth – Bendigo VIC	7%	18%	Tba
Price Growth – Busselton WA	24%	-5%	Tba

Yes, of course this crisis is different!

No two crisis are ever the same. The wide-ranging conditions before the onset of a crisis, the cause of a crisis, and the arsenal used to respond to a crisis will always be different.

The many differences between this crisis and other crisis of the past are mostly different in a good way:

- The cause and solution for this crisis is known and it (largely) has a defined time frame to combat it;
- For arguably the first time in the history of mankind, there's global unity to deal with this crisis;
- This crisis wasn't caused by an economic fracture – it's a germ. Australia entered this crisis with financial resources that included a balanced budget and low government debt relative to many other countries;
- The last major crisis (the GFC) wasn't all that long ago and lessons learned by countries all over the world (namely, more prudent credit policy and banks being beefed up with capital) will prove to be incredibly important for the strong global economic rebound from this crisis;
- The quality of credit approved in Australia over the last few years is exceptionally high because, unlike before the onset of the GFC, credit policy has been ridiculously tight in recent years;
- Property markets for much of the 2-years immediately prior to this annoying germ coming here were largely suppressed – again, that's different to pre-GFC;
- Building approval volumes and residential vacancy rates in large parts of Australia were trending lower during the 2-years before Covid, so Australia's supply of that essential commodity called 'shelter' is indeed tight;
- I absolutely love that Australia is going in to battle against this crisis with a united approach and a well-considered strategy. The state governments are collaborating with ScoMo while Frydenberg has (finally) managed to get all of our financial stakeholders (the RBA, APRA, ASIC and the banking sector) all on the same page - hallelujah; and
- Because of this, there's a variety of support packages (including record low interest rates and empathetic banks) which will cushion property owners through this and greatly minimise the need for distressed residential property sales.

As winter becomes spring, and spring becomes summer, we will all come bursting out of our cocoons with a renewed sense of freedom.

We'll be saying '*How good is it to enjoy a feed and a drink with friends, to go the beach, and to play sport again.*'

There will be an enormous release of pent-up demand for goods and services. For property, it's likely to be akin to a flock of seagulls fighting over a chip!

In the coming months, as Australia gains confidence that we are getting on top of this nuisance germ, the attention of all levels of government will turn to policies to crank the economy back up.

Mark my words, the real estate sector will be right at the top of priorities – it always is.

A surety for improving community confidence en masse is to build confidence around the value of their home. For 70 per cent of Australian households, the roof over their head is the most valuable asset they own. There is no bigger common denominator to stimulate the nation's psyche than real estate!

For generations, governments have known that creating an environment which gives people confidence in the stability of asset values is healthy for consumer and business sentiment on the whole.

They also know that a healthy volume of real estate transactions is healthy for retail trade jobs (think homewares, furniture, and hardware stores), white collar jobs like conveyancers and real estate agents, and for blue collar tradie jobs.

And let's not forget that property taxes such as stamp duty are the biggest revenue generator for governments to fund infrastructure projects and our private sector workforce.

As for property investors, it doesn't get any better than 5 percent rental yields and a 3 percent interest expense. And the opportunity to buy right now, while there's very little activity because most people are in their cocoons, is absolutely salivating!

Ten years from now, those who took advantage will be laughing all the way to the bank while saying '*… screw you Coronavirus*.'

Safe as houses!

Propertyology is Australia's premier property market analyst and national award-winning buyer's agency. Every capital city, every non-capital city, they analyse fundamentals in every market, every day.

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